

BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF DELAWARE

IN THE MATTER OF THE APPLICATION OF)	
TIDEWATER UTILITIES, INC. FOR THE)	
APPROVAL OF THE SEMI-ANNUAL)	
ADJUSTMENT TO THE DISTRIBUTION SYSTEM)	PSC DOCKET NO. 16-1067
IMPROVEMENT CHARGE PURSUANT TO)	
26 DEL. C. §314 (B) (5))	
(FILED NOVEMBER 16, 2016))	

IN THE MATTER OF THE APPLICATION OF)	
TIDEWATER UTILITIES, INC. FOR THE)	
APPROVAL OF THE SEMI-ANNUAL)	
ADJUSTMENT TO THE DISTRIBUTION SYSTEM)	PSC DOCKET NO. 17-0330
IMPROVEMENT CHARGE PURSUANT TO)	
26 DEL. C. §314 (B) (5))	
(FILED May 19, 2017))	

ORDER NO. 9236

AND NOW, this 19th day of June 2018, the Delaware Public Service Commission ("Commission") determines and orders the following:

WHEREAS, under the provisions of 26 Del. C. § 314, a water utility may calculate and collect a "Distribution System Improvement Charge" ("DSIC Rate"), allowing it to begin recovering depreciation expenses and a return on capital invested in "eligible distribution system improvements" put into service between rate cases; and

WHEREAS, under the statutory scheme, a particular water utility's DSIC Rate, once initiated, may thereafter be adjusted on a semi-annual basis to reflect eligible improvements put into

service within the preceding six months. See 26 *Del. C.* § 314(b) (3) and (b) (5);¹ and

WHEREAS, on November 16, 2016, Tidewater Utilities, Inc. ("Tidewater") filed an application in PSC Docket No. 16-1067 to reset its DSIC Rate to 2.44% effective January 1, 2017; and

WHEREAS, on December 20, 2016, the Commission adopted Order No. 9004, which opened Docket No. 16-1067 and approved Tidewater's application to reset its DSIC Rate to 2.44% effective January 1, 2017, subject to Commission Staff's ("Staff") annual review, audit, and reconciliation; and

WHEREAS, on May 19, 2017, Tidewater filed an application in PSC Docket No. 17-0330 to reset its DSIC Rate to 2.43% effective July 1, 2017; and

WHEREAS, on June 20, 2017, the Commission adopted Order No. 9073, which opened Docket No. 17-0330 and approved Tidewater's application to reset its DSIC Rate to 2.43% effective July 1, 2017, subject to Staff's annual review, audit, and reconciliation; and

WHEREAS, On February 7, 2018, Staff sent a letter to all water companies utilizing the DSIC, notifying them of a potential model error in the calculation of the pre-tax rate of return; and

WHEREAS, Staff made adjustments to Tidewater's pre-tax rate of return which lowered the semi-annual DSIC revenue requirement for both Docket Nos. 16-1067 and 17-0330; and

¹The Commission explained the DSIC Rate mechanism in detail in PSC Order No. 5850 (December 11, 2001).

WHEREAS, on March 15, 2018, Staff began conducting a review and audit of Tidewater's DSIC components and calculations contained in Docket No. 16-1067. Aside from the pre-tax rate of return, Staff found that the numbers were in compliance with the Delaware Code and the DSIC Rates which the Commission previously approved in Order No. 9004. Specifically, Staff found that: (i) Tidewater's overall rate of return did not exceed its authorized overall rate of return; (ii) Tidewater collected \$322,169 in DSIC revenues for PSC Docket No. 16-1067, which was \$37,559 above the semi-annual DSIC revenue requirement for this period; (iii) the plant portion of Tidewater's DSIC calculation was accurate; and (iv) the total depreciation as calculated by Tidewater agreed with its general ledger; and

WHEREAS, Staff found that the annual reconciliation for PSC Docket No. 16-1067 produced a total over-collection of \$37,559 for the period January 1, 2017 - June 30, 2017; and

WHEREAS, based on Staff's audit of the additional plant claimed by Tidewater in Docket No. 16-1067 and the revenues collected by Tidewater under this DSIC Rate, Staff recommends that Tidewater's DSIC Rate of 2.44% for January 1, 2017, through June 30, 2017, be approved as final; and

WHEREAS, Staff recommends that the Commission formally close PSC Docket No. 16-1067; and

WHEREAS, on March 26, 2018, Staff began conducting an audit of Tidewater's DSIC components and calculations contained in Docket No. 17-0330. Aside from the pre-tax rate of return, Staff found

that the numbers were in compliance with the Delaware Code and the DSIC Rates which the Commission previously approved in Order No. 9073. Specifically, Staff found that: (i) Tidewater's overall rate of return did not exceed its last authorized overall rate of return; (ii) Tidewater collected \$389,253 in DSIC revenues for PSC Docket No. 17-0330, which was \$70,400 above the semi-annual DSIC revenue requirement for this period; (iii) the plant portion of Tidewater's DSIC calculation was accurate; and (iv) the total depreciation as calculated by Tidewater agreed with its general ledger; and

WHEREAS, Staff's review and audit of Tidewater's DSIC components and calculations determined that the error relating to the calculation of the Pre-tax rate of return carried over into DSIC revenues collected during the period January 2018 through June 2018. In addition, DSIC revenues collected during the period February 2018 through June 2018 did not reflect a reduction to the Federal Income Tax rate afforded by the Tax Cuts and Jobs Act. As a result, there may be an over-collection of the DSIC revenue requirement for the period January 2018 through June 2018. However, it is not yet known with certainty if there is an over-collection as actual revenues for the period January 2018 through June 2018 are not yet known. Any over-collection of the revenue requirement for the period January 2018 through June 2018 will be credited to ratepayers, with interest, in Tidewater's next DSIC filing; and

WHEREAS, Staff found that the annual reconciliation for PSC Docket Nos. 16-1067 and 17-0330 produced a total over-collection

of \$107,959 for the 12-month period ending December 31, 2017. This over-collection will be reconciled with interest for a total amount of \$111,862 in Tidewater's current pending DSIC Rate application in PSC Docket No. 18-0346; and

WHEREAS, based on Staff's audit of the additional plant claimed by Tidewater in Docket No. 17-0330 and the revenues collected by Tidewater under this DSIC Rate, Staff recommends that Tidewater's DSIC Rate of 2.43% for July 1, 2017 through December 31, 2017, be approved as final; and

WHEREAS, Staff recommends that the Commission formally close PSC Docket No. 17-0330; and

WHEREAS, Staff further reports that it has shared its findings with Tidewater and the Delaware Division of the Public Advocate, and all parties are in agreement;

**NOW THEREFORE, IT IS ORDERED BY THE AFFIRMATIVE
VOTE OF NOT FEWER THAN THREE COMMISSIONERS:**

1. Under the provisions of 26 Del. C. § 314, the Commission hereby approves Tidewater's 2017 DSIC Rate of 2.44% (effective January 1, 2017, through June 30, 2017) as previously allowed to go into effect in Order No. 9004 (December 20, 2016) and Tidewater's 2017 DSIC Rate of 2.43% (effective July 1, 2017, through December 31, 2017) as previously allowed to go into effect in Order No. 9073 (June 28, 2017).

2. Nothing in this Order shall preclude the examination and challenge of Tidewater's claims in any base rate proceeding.

3. The annual audit of the filings made in PSC Docket Nos. 16-1067 and 17-0330 are concluded, and these dockets are hereby closed.

4. The Commission reserves the jurisdiction and authority to enter such further orders in these dockets as may be deemed necessary or proper.

BY ORDER OF THE COMMISSION:

Chair

Commissioner

Commissioner

Commissioner

Commissioner

ATTEST:

Secretary